The politics of revenue allocation and resource control in Nigeria: implications for federal stability

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THE POLITICS OF REVENUE ALLOCATION AND RESOURCE CONTROL IN NIGERIA: IMPLICATIONS FOR FEDERAL STABILITY

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Abstract: No doubt, one of the perennial problems which has not only defied all past attempts at permanent solution, but has also evoked high emotions on the part of all concerned is the issue of equitable revenue allocation in Nigeria. Thus, the thrust of this paper is an in-depth analysis of the politics of revenue allocation cum resource control. The paper takes a cursory look at virtually all previous attempts at arriving at equitable formula. The paper however, infers that in a deeply plural and divided society like Nigeria a polity that 'robs Peter to pay Paul' may eventually be both counter-productive and dysfunctional. The clarion call however is a federal system with fiscal policy that can imbue in the citizenry sense of justice, equity and fairness vis-à-vis revenue allocation. To do otherwise according to the findings of this paper is to jeopardize all efforts at national cohesion and integration.

Keywords: *Federalism, fiscal federalism, revenue, resource, Grants-in-aid*

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Introduction

One of the perennial problems which has not only defied all past attempts at permanent solution, but also has a tendency for evoking high emotions on the part of all concerned (each time it is brought forth for discussion or analysis) is the issue of equitable revenue allocation in Nigeria. It is an issue which has been politicised by successive administrations in Nigeria both Military and civilian regimes. Indeed, in virtually all federations in which the constitution shares power between the central and regional or state governments and, for each level to be "within a sphere co-ordinate and independent" (Wheare 1963:93) enough resources need be allocated to each tier to justify their existence. According to *The Federalist, as quoted in Wheare,* 'it is, therefore, as necessary that the state governments should be able to command the means of supplying their wants as that the national government should possess the like faculty in respect to the wants of the union' (Wheare 1963). Wheare, a doyen of federalism added further that "this is clearly an additional problem in public finance to those which confront all governments. And it is a very difficult problem. It is not easy to distribute functions, and when once they are distributed, it is even harder to allot resources with any confidence that future experience will show that resources and functions expand or contract together, each adjusting itself harmoniously to the other" (Wheare 1963, Elaza 1974:89-92).

The nature and conditions of the financial relations in federal systems particularly one that is transfixed on a multi-ethnic society like Nigeria is crucial to her continuing existence (Badmus 1989:7) for fiscal matters transcend the purview of economics alone. They have in most cases in Nigeria assumed political, religious and social dimensions (Adesina 1998:234). In the words of James O'Connor, allotments of money (and resources) must reflect "social and economic conflicts between classes and groups" (O'Connor 1993:276). It is not surprising therefore, that the basis of federal statutory revenue allocation has always been one of the "most contentious and destabilizing factors in the Nigerian polity" (see Nigerian Tribune August 11, 1995:1). No doubt, 'public finance is one of those subjects which lie on the borderline between economics and politics' (Dalton 1929 also cited in Ekeh 1994:234).

It needs be emphasized that whatever may be the origin of a federation, whether aggregation or devolution, its establishment at once raises three salient problems: "how to allocate functions rationally; how to allocate taxing powers; and how to share revenue between the governments of that federation" (Phillips 1971:389 also cited in Adebayo 1990:246). In a front page editorial comment, a national daily – *Nigerian Tribune* - identified five major objectives that revenue allocation formula must accomplish via: (i) national unity; (ii) economic growth, (iii) balanced development, (iv) self-sufficiency and (v) high standard of living for the citizens (Nigerian Tribune editorial comment 11th August, 1995:1). The snag however in Nigerian context is how best to resolve these complex revenue allocation problems that will achieve the aforementioned objectives. Thus, on several occasions, successive governments have been revising revenue allocation formula till date. So far, an acceptable formula is yet to be arrived at; in view of the agitations here and there for an acceptable formula coupled with the extreme position of oil producing region calling for total resource control if possible.

Meanwhile, it is imperative to note that Nigeria's revenue sharing debates have revolved basically around three issues namely: (i) the relative proportions of federally collected revenues in the federation account that should be assigned to the centre, the states, the localities and the so-called 'Special Funds' (vertical revenue sharing), (ii) the appropriate formulae for the distribution of centrally devolved revenues among the states and among the localities i.e. local governments (horizontal revenue sharing) and (iii) the percentage of federally collected mineral revenue that should be returned to the oil-bearing states and communities on the account of the principle of derivation and compensation for the ecological risks of oil production (Suberu 1995:8-9). It is equally important to note that since the oil boom in the early 1970s, the revenue allocation formula has been bedeviled by time inconsistencies – a tendency of one of the parties in a consensual agreement to change the terms after the negotiations have been completed. The formula has been continually manipulated in the service of inter-regional and inter-ethnic cross-subsidization (Olopoenia 1998:51).

The thrust of this paper therefore is an in-depth analysis of the politics of revenue allocation formula and resource control vis-à-vis the country's bid to attain national integration. Following this introductory remarks, which forms the first part, the paper continues in part two with a short theoretical postulation bothering on federalism and revenue allocation principles. Part three is on comparative perspective of fiscal federalism in a number of federal states and juxtaposing same with Nigeria. Part four reviews revenue allocation commission recommendations in Nigeria's pre-colonial, colonial and post-colonial state till date. The fifth part considers the restless Niger Delta Region along with its claim and call for derivation principle. This has been well discussed taking the future of Nigeria's federal state into consideration. The final part of the paper is on the way forward if Nigeria's federal state may not go the way of the former Soviet Union (USSR) that disintegrated in the early 1990s principally as a result of Russian hegemony in virtually all ramifications.

1. Federalism and revenue allocation formula: a theoretical postulation

In federal systems of government, revenue allocation involves two schemes. The first is the vertical sharing between the federal or inclusive government and the other tiers of governments. The subject of these sharing schemes is the federally collected revenues. This is because the revenues generated within the jurisdictional areas of the units – states and local governments – are not subject to the national sharing formula. In the annals of federal countries' revenue sharing arrangements, the sources of the federally collected revenue that form the subject of the sharing formula have remained largely unchanged. These sources which are not amenable to other units include import duties, mining rents, excise units, export duties and royalties (Ovwasa, 1995:102-117). The implication of this is that, since these sources of revenue are not amenable to the jurisdiction of the other units of government, the problem of revenue allocation has focused on not who should raise the taxes, but on how to share the proceeds that is, the actual revenue collected by the federal government. The imbalance between functions and resources base, calls for higher level government to transfer revenue to the lower level. Graham in a perceptive work, described such transfer as “deficiency transfer or balancing” (Graham, 1964). It is so described because the transfer seeks to make up for the differences in the levels of functions devolved to the lower government and the resources available to it.

Another principle of revenue transfer which is horizontal revenue sharing arises out of the variations in revenue generation capacities of the component units. Where the revenue raising capacities are low, heavier tax burden is imposed relative to higher revenue raising capacities area. This transfer is called “equalization transfer”. This transfer is necessary because higher taxation will scare away businesses and the economy of the unit will become more depressed. To avoid this, the higher the federal level of government has to transfer to the lower unit, the better, to enable it make up for the differences between its internally generated revenue and those required for maintaining the minimum standard of services.

The two types of resource transfer discussed above are known as inter-governmental grants-in-aid. The third principle has been given different names by different scholars. Beak (cited in Graham 1964) called it “simulation”, “incentive” or “conditional” grants. This grant is also known as categorical grants because such grants are designed basically to undertake certain projects. This is also known as categorical grants because they are desired for particular purposes.

Nevertheless, in view of the fact that no federation has all its component parts equally developed, the transfer of funds within a federation is a potent weapon in the hands of mangers of the state more so in a plural society with diverse cleavages to satisfy hegemonic interests. On the other hand it can help in ensuring that all parts of the federation have resources to carry out their functions. The government can thus ensure that the revenue from resources located in a part of the country is used for the benefit of all parts (Nyemutu-Roberts 2005:328). To this extent, revenue allocations can foster national integration. However, when misused, it engenders political altercations and contestations which destablise the political economy and tend to undermine the efficacy of federalism in fostering political accommodation and economic development. This is why the most common source of friction in a federation is the distribution of fiscal resources (Aluko 1976:1). It is important to add that fiscal relationship in a gamut of intergovernmental relations is no longer only federal-state but also state-federal, federal-local and state-local. This is one of the most significant recent trends in inter-governmental fiscal relationships in federal systems across all regions and climes of the world (Aluko 1976).

2. *Fiscal Federalism: a comparative note*

From one federal state to the other, there are variations based on the conjunction of their history, politics and development paradigms. However, one thing that is certain is that a fiscal federal system which refuses to be guided by these norms is invariably bogged down by persistent and perennial conflicts between the national and region/state governments and among the state governments until appropriate changes are accommodated or else the polity may fall apart more so where the system is not sufficiently resilient (Adebayo 2001:22).

In terms of the power to raise revenue, it is important that the assignment of tax powers is in that manner as to ensure coordinate independent authority to impose taxes and maximize comparative advantage in terms of achieving a high level of efficiency for the tax system. As far as possible, tax powers must also be assigned on the basis of the principle of separation of powers – exclusively either to the centre or the states. For example India's fiscal federalism is based *inter alia* on the notion that coordinate fiscal power and comparative advantage gives the centre the exclusive power to levy taxes on production (excise duty) and non-agricultural income and wealth, whereas the states are empowered to levy tax on sale or purchase of goods and on agricultural incomes and wealth. The Indian constitution assigns exclusively to the Union government functions relating to money supply and external borrowing but the power to borrow internally is assigned to both the Union and State governments. However, where a state is indebted to the Centre (a state can borrow from the Union government), it has to obtain its permission to borrow internally. Thus, Indian States have on the whole, significant independent revenue raising powers. They raise about 35 percent of total revenue which finances 51 percent of their expenditures. 37 percent of states expenditure is financed from transfers from the Centre. To affect such transfer on an objective basis, provision is made for the appointment of the finance commission.

In Brazil which is another federal State, under its constitution, the federal fiscal system has become highly decentralized. The States are assigned a broad-base, high-yield value added tax with power to set the VAT rates, collect and administer while the case of the federal VAT has been limited to industrialized goods. Statutory transfers from the Centre have at the same time been increased. Federal excises on fuel, electricity, telecommunications and transport have been eliminated. Consequently, like India (and indeed like such other large federations such as Australia, Canada, Germany and USA), approximately one third of total revenue is raised by the States and this finances 54.6 percent of their expenditures. Transfers account for only 31.8 percent of state governments' expenditures. In other words, constitutional provisions on tax power and revenue sharing are in favour of sub-national (state and local) governments. It is also important to note that in Brazil local governments have since 1988 become important players in fiscal federalism (Adebayo 2001).

The development of fiscal federalism in Nigeria particularly during the past seventeen years vis-à-vis the state tax autonomy has been in the opposite direction. Fiscal autonomy derived from coordinate and independent fiscal powers by the centre and the states/regions has been lost. While between 1954 and 1966 this used to be major principle of fiscal federalism in Nigeria, most of the autonomous tax powers of the states have been removed. These include:

Discontinuation of export duties and sales tax on agricultural produce.

- Standardization of personal income tax rates throughout the country, thereby ensuring that the state governments become powerless to change the rates.
- Introduction of uniform fuel prices throughout the country, thereby removing the power of state governments to levy petroleum sales taxes.
- The take over by the federal military government of all off-shore oil royalties and rent and with it the erosion of the principle of derivation

principle in fiscal allocation from about 50 percent to less than 10 percent before rising to the current level of 13 percent of the distributable pool (Adebayo 2001:22).

The cumulative impact of this erosion of the tax autonomy of the states is that they have become excessively dependent on the central authorities. As against the average of 31.8 and 35 percent of total national revenue raised by Brazilian and Indian States, the Nigerian States are raising a mere 10 percent on the average. Thus, in Nigeria it is fiscal unitarism and not fiscal federalism. If fiscal federalism constitutes the essence of democratic participation in a federal polity by guaranteeing unity in diversity, imposing limits and the size of government and promoting economic efficiency and equity, fiscal unitarism imposed through federal government hegemony is a sure source of conflict and anti-democratic culture and of resource mismanagement and corruption. Fiscal unitarism in a federal polity offers too great an incentive to macro-economic mismanagement and instability. It is also an open license for uneconomical competitiveness in the provision of public services and public goods (Adebayo 2001).

In an empirical survey carried out by Bade Onimode with the stratified sample survey which covered 14 states in all the six regions/zones of the country as well as the Federal Capital Territory of Abuja carried out in 1999 which covered main issues such as:

- whether the present revenue allocation system in the country is satisfactory.
- Preference for alternative sharing of the Distributable Pool Account.
- Possible allocation of the Distributable Pool to Special Accounts.
- Support for change of PTF (Petroleum Trust Fund) into a National Development Fund.
- Agreement on 13 percent derivation formula to the oil-producing states.
- Suggestion on a more appropriate percentage allocation to the derivation principle.
- Opinion on different sources of oil revenue on which to base the derivation principle (e.g. on-shore, off-shore, etc.).
- Relative preference for other principles of revenue allocations.
- How the local governments should share in revenue from the derivation principle.
- Opinion on the sharing of constitutional jurisdiction over revenue, fiscal, tax or other resource powers among the tiers of government.
- Opinion on the level of government to exercise specific fiscal powers.
- Suggestion on the sharing of VAT revenue among the tiers of government.
- Free comments on another aspect of the fiscal system in the country.

The principal finding of the survey mentioned earlier which was conducted in 1999 includes the following:

- 91 percent of the respondents are dissatisfied with the current revenue allocation system in the country.
- 83 percent of the respondents would like to see the share of the states in the Distributable Pool Account increase from 24 to 40 percent while that of the Federal Government is reduced to 40 from 48 percent.

- 84.6 percent of respondents feel that the principle of derivation should apply to petroleum profits tax; 72.9 percent want it to apply to on-shore oil revenue while 64.8 percent favour off-shore oil revenue.
- with respect to preferences of national revenue to be allocated according to the derivation, all respondents favour a percentage higher than the current 13 percent support for 30 to 50 percent was the highest.
- With regard to preferences for horizontal allocation of distributable pool accounts among the regions/states more than two-thirds of the respondents expressed preferences for the following eight criteria in the order of their preferences beginning with the most preferred among these two-thirds:
  (i) Ecological Protection;
  (ii) Population;
  (iii) Basic Needs;
  (iv) Internal Revenue Generation;
  (v) Fiscal Efficiency;
  (vi) Social Development Factor;
  (vii) Population Density; and
  (viii) Equality of access to development (cited extensively in Adebayo 2001:27).

Only three of these – (ii), (iv) and (vii) are in the 1999 constitution. Most respondents prefer that VAT should become the exclusive responsibility of the Regions/States (Adebayo 2001). From the foregoing, we now proceed to a review of what obtains to date.

3. Revenue allocation commissions (1946-1968): a review

The history of revenue allocation formula and commission all in an attempt to arrive at an acceptable sharing formula for Nigeria occurred long before independence. The first set of commissions was *ad hoc* in nature. The first commission ever set up by the colonial masters was in 1946. The name of the Commissioner was Phillipson. Recommendation of the commission was to take effect from 1948/49. The commission placed emphasis on three principles for revenue sharing, derivation, population and even progress. This period was characterized by strong federal government's presence in fiscal matters (Olaloku 1979). The newly created regional councils at the time were allocated the residue or excess of the budgetary needs of the Central government because they had no legislative powers whatsoever. So they could not collect or appropriate revenue.

By 1951, the recommendations of that Commission became unacceptable to Nigerians in general and nationalist leaders in particular and another one was set up that year known as Hicks Phillipson commission. This commission recommended three principles: *Derivation*, *Needs* and *National Interest*. The recommendation of this commission was to take effect in 1952/53 (Phillips 1971). It needs be added further that the regional councils during this period had the fiscal powers with independent revenues and tax jurisdictions with the aim of prompting a truly federal system. The Central Government now shared equally with the Regions (East, West and North), the centrally-collected revenue. The Regional portion of this revenue was in turn shared among the Regions largely on the basis of derivation. Mention must be made of the introduction of special grants to the Regions to take care of education and police protection (Phillips 1971, Omitola 2005:149). The major difference or departure of this commission with the previous one's recommendation is that it de-emphasised population criterion.

In 1953, Chick`s Commission was raised to review the formula again. In its report, the commission adopted and emphasised the derivation principle as the basis of allocation of revenue to the Regions. For effective application of the derivation principle, the following weights were allocated for each region. Eastern and Northern Regions each had 30 percent while the Western Region had 40 percent (Omitola 2005). Still in search of acceptable revenue allocation formula in 1958, Raisman Commission was raised to review same. In its own recommendation it reduced considerably, the importance of principle of derivation, and retained the principle of fiscal autonomy for the Region; it emphasised that of needs with population used as an approximate index of fiscal needs and the basic responsibilities of the regional governments and the need for even-development of the country which it called "unified national policy". This commission recommended further that the North which had over half of the country's population was to receive 40 percent; Western Region was to receive 37 percent, Eastern Region 18 percent and Southern Cameroon 5 percent; while the Northern Region in addition received 1.5 million naira as compensation because the principle of derivation worked against it in the past.

Six years later in 1964, Binns Commission did another review. This commission was established as a result of a realignment of boundaries. First, with the referendum that transferred Southern Cameroons to the Main Cameroon in 1961 and the creation of the Mid-Western Region from Western Region in 1963. The Commission's recommendations contained the emphasis on the use of the principle of needs. While the federation and the Regions continued to share the federally-collected revenue, the commission recommended a change on the formula for sharing the Distributable Pool Account (DPA). Northern Region had 42 percent; Eastern Region 30 percent, Western Region 20 percent and the Mid-western Region 8 percent. The creation of the twelve-state structure in 1967 brought about a revision in the revenue sharing formula, with the retention of the basic principle of allocation as recommended by the Binns Commission.

In 1968, Dina Committee – an interim system pending the working out of a new revenue system following the creation of 12 states – was raised. The committee stressed the most urgent problem facing the nation as the gross imbalance in economic development among various states of the federation. Thus, it introduced minimum responsibility of government as a revenue sharing criterion. While retaining the principles of need, even-development and derivation that had been introduced by previous commissions, it recommended the establishment of a permanent revenue planning and fiscal commission. However, the recommendation of the Dina committee was never implemented. Its Report has been regarded not only as one of the best documentations on the country's fiscal system, but also one which was too far ahead of its times (see Adesina, 1998 and Omitola, 1995). Below see table 1 for the system of

Revenue Allocation to the regions/states of Nigeria since 1948. The table is self-explanatory.

At this juncture, it is imperative to make a number of remarks on both the commissions and the formula. First, thus far, virtually all the revenue allocation formulas are warped because they have not been "open covenants openly arrived at" (Omitola, 2005). Rather, they reflect the views of commissions, individuals or groups within the commissions, which have shown proclivity for embracing theories, beliefs, ideas and approaches which have not only proved unrealistic but have thereby contributed to the dislocations within the Nigerian State by the Military

On December 31, 1983 the Revenue Amendment Decree, Decree no.36 of 1984 not only retained the use of the horizontal principles introduced by the Okadigbo Commission; it also amended the Revenue Allocation Act of 1981 and introduced a new revenue allocation formula as follows:

Federal Government	-	55 %
State Government	-	32.5 %
Local Government	-	10 %
Special Grants	-	2.5 % (Adebayo 1990)

The Babangida Administration through Decree no. 49 of 1989 created the Revenue Mobilization, Allocation and Fiscal Commission to oversee revenue sharing and mobilization (Obi, 1998). The creation of this commission represented a radical departure from the use of Ad Hoc Commissions. It was to examine and make funds in the Federation Account allocated as follows:

Federal Government	-	47%
State Government	-	30%
Local Government	-	15%
Special Funds	-	8% (Offiong 1997)

In December 1989, the Federal Government accepted the recommendations of the Commission on the modifications of the sharing formula:

Federal Government	-	50%
State Government	-	30%
Local Government	-	15%
Special Funds	-	5%

The formula for sharing among the federating states stood thus:

Equality of states	-	40%
Population	-	30%
Landmass	-	10%
Social Development	-	10%
Internal Revenue Effort	-	10% (Danjuma 1996)

Another of comments is imperative in the recommendations of this commission. First, the revisiting of the principle of derivation as the Commission allocated 2 percent of the revenue from mineral exploitation in direct proportion to the rate of mineral extracted from each state, and, secondly, 1.5 percent was to be administered by the Federal Government for the development of the mineral producing areas of the country (West Africa December 24, 1980). As a consequence of the transfer of primary education to local government Decree no. 3 of 1991 made a slight amendment to the sharing formula thus:

Federal Government	-	50%
State Government	-	25%
Local Government	-	20%
Special Funds	-	5% (Olaloku,1979)

By June 1992, there was another revision of the revenue allocation formula along this line:

Federal Government	-	48.5%
State Government	-	24%
Local Government	-	20%
Special Funds	-	7.5% (Omitola, 1995)

One striking feature of the recommendations of various Revenue Allocation Commissions with respect to the revenue allocation formula adopted from the 1970s is a phenomenon tagged the "concentration process" in Nigeria's fiscal federalism (Mbanefoh and Egwakihide 1998:22). This refers to situation whereby there is a gradual reduction of State Government Accounts and this is further exacerbated with the establishment of Special Account by the Federal Government (Mbanefoh, Egwakihide 1998). This is because it was used to favour a few selected states/Local Councils more often than not, it provoked inter-state hostility and rivalry, thereby undermining the stability and corporate existence of the country. For the graphic description of vertical allocation of the federation account, between 1981 and 1995, see table 1 below. Table 2 also shows Horizontal Revenue Allocation Formulae from 1970-1995.

Gen. Sani Abacha's national Constitutional Conference Committee on revenue allocation

The National Constitutional Conference convened by Gen. Sani Abacha's administration (November 1993-June 1998) established a Committee, after receiving various memoranda from different groups and parts of the country. The Committee recommended a new sharing formula thus:

Federal Government	-	33%
State Government	-	22.5%
Local Government	-	20%
Federal Capital Territory	-	1%
Stabilization Account	-	5%
Economic Development	-	2%
Derivation	-	11%
OMPADEC	-	6%

On the horizontal sharing of revenue, the following principles were recommended:

Equality of States	-	30%
Population	-	40%
Social Development	-	10%
Internal Revenue Effort	-	10%
Landmass and Terrain	-	10% (News October 3, 1994:15)

The commission recommended 13 percent for derivation, the 13 percent was lumped with any amount set aside for funding any authority or agency or the development of the state or states of derivation. While the recommendations of the constitutional conference were far-reaching inasmuch as they ended to reduce considerably the proportion of revenue accruing to the Federal Government, and thus enhance fiscal decentralization, they were never implemented. Rather, the 1999 constitution promulgated by the Gen. Abdulsalam Abubakar's Administration (June 1998-May 1999) adopted the 1992 Revenue Allocation formula via:

Federal Government	-	48.5%
State Government	-	24%
Local Government	-	20%
Special Funds	-	7.5% (Omitola 1995)

Pursuant to the provisions of the 1999 constitution, the Revenue Mobilization Allocation and Fiscal Commission established to "review from time to time, the revenue allocation formulae and principles in operation to ensure conformity with changing realities" embarked on a review of the existing revenue allocation and recommended a new sharing formula:

Federal Government	-	41.3%
State Government	-	31.0%
Local Government	-	10.0%
Special funds	-	13.0%

On the horizontal formula for disbursement of funds amongst states and local governments, the Commission recommended thus:

i.	Equality	-	4.5%
ii.	Population	-	2.5%
iii.	Population density	-	2.0%
iv.	Internal revenue effort	-	8.0%
v.	Landmass	-	5.0%
vi.	Terrain	-	5.0%
vii.	Rural road, water ways	-	1.5%
viii.	Portable water	-	1.5%
ix.	Education	-	4.0%
x.	Health	-	3.0%

The Commission recommended that 60 percent of the Derivation Fund be allocated to the federating states and 40 percent to the Local Government Councils in the oil-producing areas. However, most states especially the Southern states are dissatisfied with the revenue allocation formula. This dissatisfaction has to do with what they observed as over-concentration of federal revenues in the Federal Government. These states also felt that if they have substantial control over resources found in their areas of jurisdiction, as it was the practice in the First Republic, more revenues would and should be available to them for developmental purposes. Hence, they assert a recourse claim to the court of law for judicial interpretation of the provisions of relevant sections of the constitution. However, the ruling of the Supreme Court made inevitable further adjustments to the above recommendations necessitating a radical change in the revenue allocation formula thus:

Federal Government	-	46.43%
State Government	-	33.20%
Local Government	-	20.73%

Nonetheless, the Federal Government set aside the recommendations of the Revenue Mobilisation and Fiscal Commission (RMAFC) while President Olusegun Obasanjo issued an Executive order pursuant to section 315 of the 1999 constitution pending the approval of a new revenue allocation formula by the National Assembly. The Executive order, as was expected, gives the lion share (i.e. 54.68 percent) to the Federal Government. While the recommendations of the commission on the revenue allocation formula are still awaiting the consideration of the National Assembly, the Executive Branch withdrew the Bill, which embodied them, on the excuse that there wee in circulation many versions of the Revenue Allocation Bill.

From the foregoing, a number of comments and observations become imperative. As rightly observed by Suberu (1995:4), the subsequent periodic modifications of these allocative criteria have achieved three things. First, they have effectively legitimized the criteria of demography and equality as the prominent principles of horizontal revenue sharing in Nigeria. Second, the periodic changes in the horizontal revenue sharing system have largely compounded the schemes intensely political and divisive nature. For instance, in 1990, the Babangida Administration re-introduced, and then assigned a weight of ten percent to the discredited principles of land mass. Ethno-regional opposition to this apparent bias to the North (which with only about half of the nation's population), encompasses some three quarters of the national territory led some southern members of the National Constitutional Conference to propose the inclusion of the countervailing 'political' principle of 'population density' in the horizontal revenue sharing scheme. The primary effect of such regional political maneuvers is to deprive the nation of the development of a coherent revenue sharing scheme that balances 'efficiency' and 'equity' principles of allocation in a politically healthy and economically productive manner. Third, and finally, Nigeria's horizontal revenue sharing policies and reforms give insufficient recognition to such largely non-political principles of allocation as the social development factor and internal revenue generation effort while blatantly ignoring such other technical principles as budgetary obligation, absorptive capacity, fiscal efficiency and fiscal equalizations.

The inter-governmental and ethno-regional tensions and suspicious associated with vertical and horizontal revenue sharing in Nigeria are poignantly underscored by on-going controversies over the sharing of the proceeds of the centrally administered Value Added Tax (VAT). Introduced in January 1994 to replace the unsuccessful state-based sales tax, VAT yielded impressive total revenues of 8.6 and 21 billion naira in 1994 and 1995 respectively (Business Times December 12, 1994:16). The VAT proceeds were originally and statutorily designed to be shared, in the order of 80 percent to the states and 20 percent to offset the administrative costs of VAT to the Federal Government (see Daily Times January 17, 1995:51). In January 1995, however, the Federal Government increased its share of VAT proceeds to 50 percent, reduced that of the states to 25 percent and assigned the balance to the localities (Daily Times, 17th January, 1995:51. Trenchant criticisms of this brazen assault on fiscal federalism led General Abacha to announce the following sharing formula for VAT in February 1996. Forty percent for the states and the Federal Capital Territory (FCT), Abuja, 35 percent to the Federal Government and 25 percent to the localities (The Guardian February 18, 1995:18). Yet, an even more perverse feature of the VAT regime is the Federal Government's distortion, politicization and centralization of the inter-state sharing arrangements with the consequence that the returns to the bigger contributors to VAT (mainly Lagos and other southern states) are almost inversely proportional to their contributions (Daily Times, January 4, 1995 and Nigerian Tribune 9th October, 1995).

The following tables below clearly encapsulated revenue allocation formulae in both pre and post independence Nigeria. They are self explanatory.

Table 1: System of revenue allocation to the regions/states of Nigeria since 1948

Year of Introduction	Commissioner	Principles	System of Allocation
A. 1948/9	Phillipson	Derivation Even progress	Not specified
B. 1952/3	Hicks Phillipson	Derivation needs National interest	1. 50% of import duties on tobacco, and 100% on motor fuel, according to consumption. 2. Capitation grant: 13s per head. 3. 100% education and police grants. 4. Special equalizing grants.
C. 1954/5	Chick	Derivation Fiscal autonomy	1. 50% of import and excise duties on tobacco, and 100% of import duties on motor fuel, according to consumption. 2. 50% of other import duties (other than on alcohol, tobacco, and motor fuel) to be distributed: East 30%; West 40%; North 30%. 3. 100% of income tax (except on companies), according to residence. 4. 100% mining, rents and royalties, according to extraction. 5. 50% export duties, according to origin.
D. 1959/60	Raisman Tress	Derivation Fiscal autonomy Unified national policy	1. 100% of import and excise duties on tobacco, and 100% of import duties on motor fuel, according to consumption. 2. 100% export duties, according to origin. 3. 50% mining rents and royalties, according to extraction. 4. 30% of other import du-

			ties (other than on alcohol, tobacco, and motor fuel), and 30% of mining rents and royalties, to be paid into the Distributable Pool Account: North, 40/95; West, 24/95; East, 31/95.
E. 1966/7	Binns	Derivation Fiscal autonomy Unified national policy.	1. 100% of import and excise duties on tobacco and motor fuel, according to consumption. 2. 100% export duties, according to origin. 3. 50% mining rents and royalties, according to extraction. 4. 35% of other import duties, and 35% of mining rents and royalties, to be paid into the Distributable Pool Account: East, 30%; West, 20%; Mid-west, 8%; North, 42%.
F. 1968/9	An interim system pending the working out of a new revenue system following the creation of 12 States.		As Above, Except That The Pool Account Is To Be Distributed As Follows: Each Of The Six Northern States (Kano, North-Western, North-Central, North-Eastern, Kwara, Benue-Plateau), 7%; Western, 18%; Lagos, 2%; Mid-Western, 8%; East-Central, 17.5%; South-Eastern, 7.5%; Rivers, 5%.
G. 1969/70	Also an interim system pending a new constitution.		1. 100% of import and excise duties on motor fuel, and 100% of excise duty on tobacco, according to consumption. 2. 60% export duties, according to origin. 3. 45% of mining rents and royalties, according to extraction. 4. 35% of other import duties, 40% of export duties, 50% of mining rents and royalties, and 50% of excise duties on tobacco, to be paid into the Pool Account, and to be distributed as follows: 50%

			equally among the States, and 50% among them according to population.

Source: Phillips 1971, p.394.

Table 2: Vertical allocation of the federation account, 1981-1995

ITEMS	**Initial 1981 Act (Nullified by Supreme Court in October 1981)**	**Revised**	**1990**	**January 1992**	**June 1992 to Date**	**NRMAFC Proposals**	**Proposals of the NCC Committee on Revenue Allocation**
Federal Government	55	55	50	50	48.5	47	33
State Government	26.5	30.5	30	25	24	30	32.5
	10	10	15	20	20	15	20
Local Governments							
Special Funds	2	2	1	1	1	2	-
A) Derivation (Oil-		1.5	1.5	1.5	3	2	6.5
Producing States)	3						
B) Dev. of Mineral		-	1	1	1	1	2
Producing Areas	2.5	1	1	1	2	0.5	2.5
C) Initial Dev. of FCT.	1						
Abuja		-	0.5	0.5	0.5	0.5	-
D) General Ecological	-	-	-	-	-	2	0.5
Problems	-	-	-	-	-	-	3.0
E) Stabilization	-	4.5	5	5	7.5	8	14.5
F) Savings	8.5						
G) Other Special Projects							
Subtotal of Special Funds							
TOTAL	100	100	100	100	100	100	100

Source: Suberu, 1995, see *New Nigeria*, February 26, 1981, also see, National Constitutional Conference Report, 1994, pp. 13, 30.

Notes:
(a) The National Revenue Mobilisation Allocation and Fiscal Commission, inaugurated by General Babangida in September, 1988.
(b) Abuja enjoys the statutory status of a State for revenue sharing purposes and therefore, may partake in the states' shares of federal revenues.

Table 3: Horizontal revenue allocation formula, 1970-1995

	Percentage Weight Assigned					
Principles	**1970-80**	**Initial 1981 Act**	**Revised 1981 Act**	**1990 to Date**	**Proposals of NRMAFC**	**Proposals of NCC Committee on Revenue Allocation**
Equality of States (Minimum responsibility of Government)	50	50	40	40	40	30
Population	50	40	40	30	30	40
Social Development Factor	-	-	15	10	10	-
Internal Revenue Generation Effort	-	-	5	10	20	10
Land mass and/or Terrain	-	10	-	10	-	10
Population Density	-	-	-	-	-	10
TOTAL	100	100	100	100	100	100

Source: *New Nigeria*, 26th February 1981, National Constitutional Conference Report, 1994, pp. 4 and 30.

4. *The need for derivation principle*

The most acrimonious issue in Nigeria today involves the increasingly strident campaign for economic restitution and ecological rehabilitation by the country's oil producing ethnic minority communities around the Niger Delta Region in the south. Since the dramatic expansion in petroleum export revenue in the seventies, Nigeria's revenue sharing policies have explicitly down graded and sometimes eliminated the principle of derivation as criteria of entitlement. The principle of derivation in revenue allocation has been consciously and systematically obliterated by successive regimes, resulting in the drastic reduction of the derivation principle from 100 percent in 1953 to 50 percent in 1960, 45 percent in 1970, 20 percent in 1975, 2 percent in 1982 to 3 percent in 1992 till date (see The Source January 18, 1999:18-20, The Guardian on Sunday November 15, 1998:17-19).

However, relatively little official attention has been given to the need to compensate the oil bearing arrears for the ecological problems of mineral exploration. The concomitant difficulties and problems in the area have been compounded by the naturally difficult (usually swampy and creekly) terrain of these areas. The Niger Delta area of the country which has today not only placed the country in the sixth position in the world's oil producing chart but has made the country a colossus in Africa and one of the most widely reckoned with in the world – as the goose that laid the golden egg – has had a reverse fate. It now competes as one of the most wretched communities in the world. The people of the entire area have come under serious psychological pressure to save their future (Sunday Punch January 17, 1999:9-11). Despite the fact that Nigeria's mineral resource account for over 80 percent of Gross Domestic Product (GDP), 95 percent of national budget and 90 percent of foreign exchange earnings, of these figures, 65 percent GDP, 15 percent national budget and 70 percent foreign exchange earnings are cumulatively derived from the Niger Delta alone (The Source January 18, 1999:18-20). It is pathetic to note that with these huge contributions "… their reward from Nigerian state remains avoidable deaths arising from ecological devastation and military regression … the unabating damage done to the fragile natural environment and to the health of the people is due in the main, to uncontrolled exploration of crude oil and natural gas which has led to numerous oil spillage, uncontrolled gas flaring, opening up of the forest to loggers, indiscriminate canalization, flooding, coastal erosion and earth tremor among others (The Source January 18, 1999).

Consequently, there has been an upsurge of economic nationalism in the oil rich areas. This has involved rigorous demand for wide-ranging institutional and distributional reforms, including the amendment of the Nigerian constitution to make mining and minerals a joint federal-state, rather than exclusively federal responsibility. The vesting of mineral land rents, and perhaps oil royalties in the communities or state of derivation, rather than in the federal government, the payment of significant proportion of federally collected petroleum profits tax to the oil producing regions in consonance with the principle of derivation; the establishment of appropriate institutional and financial arrangements of which the oil rich communities may be compensated for, protected against, the ecological problems and risks of oil exploration and exploitation, the establishment of appropriate legislation to compel the state-backed multi-national oil companies to protect the environmental aspirations of their host (oil-bearing) communities, the recasting of Nigeria's defective federal system along genuinely federal, or even *confederal* line in order to afford greater autonomy and security to ethnic minority communities (Suberu 1996 and The Guardian November 30, 1992 and April 1, 1994, see also, The News September 14, 1998).

In the renewed struggle of the oil bearing communities, the Ijaw Elders Forum in a newspaper advertorial disclosed that over 50 citizens in numerous villages of their communities including the traditional rulers of Kalama and Opia were killed while those wounded were over 300 (The Guardian January 15, 1999). This occurred when federal government deployed two warships and at least ten armored tanks to quell civil disobedience in the areas. The restless communities agreed that it is increasingly imperative that the oil companies embark on more community development projects such as new towns, provision of electricity, roads and canals etc. in the Niger Delta Region of the country. Other specific areas that they believe the multi-national corporations exploiting oil in their region should look into immediately include:

1. Ensure participation of oil producing communities in the operation of oil companies with an equity holding of 35 percent. The communities will take shares proportionate with their production quota and pay with their land or via, specially arranged loan. This state holder approach will go a long way in enhancing security of installations within the industry.
2. Representation at senior management level and at the board by members of the oil producing areas.
3. Employment for Ijaw Youths and that of other oil producing communities should be in both quota and merit basis.

The forum recommended specifically a 40 percent quota allocation based on derivation principle for the oil bearing states (The Guardian January 15, 1999:23). It is important to note that the 1999 constitution in its section 162 (2) provided that the principle of derivation shall be constantly reflected in any approved formula as being not less than thirteen per cent of the revenue accruing to the Federation Account directly from any natural resources.

Concluding remarks

With the entrenchment of derivation principle in the new constitution, the restless oil bearing communities may heave a sigh of relief. But for the stability of the polity, the federal government may have to properly monitor the thirteen percent quota allocation to them possibly through a special body that may not be akin to the present ineffective Oil Mineral Producing Areas Development Commission (OMPADEC), which has been accused on several occasions of corrupt practices. The strongest recommendation of this paper is that the thirteen percent derivation quota should be tried and be seen to work. However, new thinking in Nigeria now is that even if revenue allocation is tinkered with to favour the Oil producing regions of the country, pervasive culture of corruption in a kleptocratic polity like Nigeria is indeed making nonsense of innovations. In a public lecture, a one time Minister of External Affairs noted that "it has been estimated (according to the United Nations Office on Drug and Crime) that 400 billion dollar was stolen from the Nigerian Treasury between 1960 and 1999 (Akinyemi 2010). The implication is that large chunk of money deployed to the Niger Delta Region for development to compensate of oil exploration is far from achieving the desired goals more so with a number of former governors in the region fingered in outright plundering of their respective states. In essence, the Niger Delta Region of the country is not only restless but virtually all integrative mechanisms put in place to guarantee development; fairness equity and justice have failed the convoluting Nigerian federation (Ojo 2009).

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